The Facts on H.R. 1257, The Shareholder Vote on Executive Compensation Act

H.R. 1257, The Shareholder Vote on Executive Compensation Act, would empower shareholders to express their views on their company's executive compensation practices without setting any caps on the size or nature of executive compensation. H.R. 1257 requires only that public companies include on their proxy statement to shareholders:

(1) an annual *nonbinding advisory vote* on their company's executive compensation disclosures (these disclosures are already required by the SEC); and

(2) an additional *nonbinding advisory vote* if the company awards a new (not already disclosed) golden parachute package while simultaneously negotiating the purchase or sale of the company.[1]

H.R. 1257 Is a Balanced/Pro-Market Approach. The nonbinding advisory vote will give shareholders a mechanism for supporting or opposing their company's executive compensation practices without diminishing the board's legal authority. Knowing that they will be subject to some collective shareholder accountability should give board members some pause before approving excessive compensation plans but it will not bind them or in any way require that they pursue any particular course.

The Bill Does Not Cap, Limit or Change Any Executive's Compensation. It simply requires that shareholders have a nonbinding say on their company's pay disclosures.

Companies Are Already Required By SEC Rules To Disclose Compensation. The SEC's recent executive compensation disclosure rules already require that companies disclose their compensation packages in their annual proxy. The annual vote requirement simply requires that companies (1) add a line to that disclosure permitting shareholders to approve or disapprove and (2) tally the votes.

The Cost to Business Would be Minimal. In its cost estimate, the only costs CBO expected from the annual vote would be to cover "any additional programming, paper, printing, postage and tabulation allow for the shareholder vote" and concluded that a total of these ***costs would "fall well below*** the annual threshold for private sector mandates" (i.e. below $131 million in 2007 for the entire country). Regarding the possible second vote (for companies providing a *new* golden parachute when negotiating a purchase or sale), CBO confirmed from industry and government that "such proxy solicitations occur infrequently. Therefore, ***CBO expects that the incremental cost for the industry [of this possible second vote] would be minimal."***

Public Companies Will Have Time to Prepare for the Vote. In response to suggestions by the business community to give business enough time to prepare, the nonbinding advisory vote would not be required until the 2009 proxy season.

The Nonbinding Vote Has Been Used Successfully in Other Countries. The nonbinding advisory vote approach has been used in the United Kingdom since 2003 and is now used in Australia as well. The policy change is credited with improving management/shareholder dialogue on executive compensation matters and increasing the use of *long-term* performance targets in incentive compensation. It was recently adopted voluntarily by Aflac, and is currently pending before numerous U.S. public companies.

H.R. 1257 is Widely Supported. H.R. 1257 is supported by a number of institutional investors, shareholder advocates and pension funds.

Prepared by Staff of the House Financial Services Committee. For more information, please also visit: http://financialservices.house.gov/ExecutiveCompensation.html.

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1 This second vote is designed to help address a CEO's natural conflict of interest when negotiating the selling or purchase price of a company while simultaneously negotiating an *additional* personal exit package (e.g., a person may be willing to sell the company for less if he/she personally receives more as a result – thereby reducing shareholder value). This provision would not apply to long disclosed "change in ownership" agreements – and would only apply to new provisions added while negotiating the sale/purchase.